

Northeastern Utah Educational Services
Audit Report
Year Ended June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Utah Educational Services as of and for the year ended June 30, 2005. These general-purpose financial statements are the responsibility of Northeastern Utah Educational Services management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements and that the audited financial statements are in conformity with accounting principles generally accepted in the United States of America. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Utah Educational Services as of June 30, 2004 and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2005, on our consideration of Northeastern Utah Educational Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2005.

Steve Johnstun & Associates
Certified Public Accountant
September 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Northeastern Utah Educational Services Center, we offer readers of the Center's financial statements this narrative discussion, overview, and analysis of the financial activities of the Center for the fiscal year ending June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Center's financial statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements. The Center's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Center's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the Center, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving and deteriorating.

The *statement of activities* presents information showing how the net assets of the Center changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 8 through 13 of this report.

Fund Financial Statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Center can be divided into two categories, governmental funds, and proprietary funds.

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Center maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *general fund*, of which is considered to be a major fund.

The Center adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund statements can be found on pages 11 to 13 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 16 to 23 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Center, assets exceeded liabilities by \$ 366,114 at June 30, 2005, and at June 30, 2004, Center assets exceeded liabilities by \$358,200.

The largest portion of the Center's net assets (78%) is in cash. At June 30, 2004, 87% of the Center's net assets were cash.

A portion of the Center's net assets represent resources that are subjected to external restrictions on how they may be used. The remainder of net assets may be used to meet the Center's ongoing obligations to employees, and operations. However, the unrestricted net asset amount has been earmarked for the following purposes:

- **Post Employment Healthcare Benefit Obligation**

The Center provides healthcare benefits for eligible retired employees. This benefit is recorded as an expenditure as healthcare premiums are paid. Certain employees who elect to retire early under the Center's early retirement program receive healthcare benefits up to five years. The Center estimates its healthcare obligation for early retirees is \$ 12,181 as of June 30, 2005. The healthcare obligation for early retirees was \$17,181 as of June 20, 2004.

As of June 30, 2005, the Center is able to report positive balances in two categories of net assets, both for the Center as a whole and for its separate governmental activities. The same situation held true for the prior fiscal period.

Financial Analysis of the Center's Funds

As noted earlier, the Center uses fund accounting to endure and demonstrate compliance with finance-related legal requirements.

The focus of the Center's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Center's financing requirements. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget.

The **general fund** is the chief operating fund of the Center. At June 30, 2005, unreserved and undesignated fund balance was \$124,060 while the total fund balance was \$ 286,839. At June 30, 2004, unreserved and undesignated fund balance was \$139,960, while the total fund balance was \$211,788. The unreserved and undesignated fund balance decreased by \$15,900. The total fund balance decreased by \$24,949 during the fiscal year. Annual expenditures in the general fund were \$36,859 more than the final budgeted amounts.

The **proprietary fund** has a total fund balance of \$21,670, as of June 30, 2005. The proprietary fund balance as of June 30, 2004 was \$24,655.

Requests for Information

This financial report is designed to provide a general overview of Northeastern Utah Educational Service Center's finances and to demonstrate the Center's accountability for the funds it receives. If you have any questions concerning this report or need additional financial information, please contact the Office of the Business Administrator, Northeastern Utah Educational Services Center, 755 South Main, Heber Utah, 84032. Phone number (435) 654-1921.

Northeastern Utah Educational Service
Statement of Net Assets
June 30, 2005

Exhibit 1

	<u>Governmental Activities</u>
Assets:	
Cash and Investments	\$ 286,356
Receivables:	
Other Governments	1,868
Inventory	-
Capital Assets:	
Other Capital Assets, Net of Accumulated Depreciation	79,275
Total Assets	<u>367,499</u>
Liabilities:	
Accounts Payable	1,385
Total Liabilities	<u>1,385</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	79,275
Restricted for:	
Programs	162,773
Unrestricted	124,066
Total Net Assets	<u>\$ 366,114</u>

See accompanying notes to the general purpose financial statements

Northeasten Utah Educational Service
Statement of Activities
Year Ended June 30, 2005

Exhibit 2

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Total Governmental Activities
	Expenses	Charges for Services to Districts	Operating Grants and Contributions	Total Revenues and Contributions
Governmental activities:				
Cognos	18,000	-	-	(18,000)
CSPD	609	-	-	(609)
Help	49,005	-	60,565	11,560
IDEA	-	-	-	-
Polycom	-	-	-	-
Reading	77,338	-	70,610	(6,728)
Remedial Reading	8,279	-	-	(8,279)
Improving Literacy	9,081	-	21,250	12,169
Coaches M&S	52,456	-	53,100	644
Reading IV	1,266	-	-	(1,266)
Reg Training	68,891	-	66,451	(2,440)
Special Ed	73,951	68,311	68,311	(5,639)
Special Ed Training	1,628	1,500	1,500	(128)
SWEB	866	-	-	(866)
Tech Training	534	-	-	(534)
U Tips	5,625	-	5,625	-
Tech	46,116	23,364	20,010	(2,742)
Title III	13,396	-	27,199	13,803
Total School District	\$ 427,041	\$ 93,175	\$ 324,810	\$ (9,055)
General Revenues:				
General Purposes				185,174
Interest Income				7,320
General Expenses				(165,518)
Depreciation Expense General Fund				(10,007)
General Net Income				16,969
Net Assets - Beginning				358,200
Net Assets - Ending				366,114

See accompanying notes to the general purpose financial statements

Northeastern Utah Educational Services
Balance Sheet
Governmental Funds
June 30, 2005

Exhibit 3

	Governmental <u>Fund Type</u>	
	<u>General</u>	<u>Totals</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash	286,356	286,356
Receivables	1,868	1,868
Inventory	-	-
Due From Other Funds	-	-
Total Current Assets	<u>288,224</u>	<u>288,224</u>
Total Assets	<u>288,224</u>	<u>288,224</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	1,385	1,385
Due to Other Funds	-	-
Total Current Liabilities	<u>1,385</u>	<u>1,385</u>
<u>Non-Current Liabilities</u>		
Advances from School Districts	-	-
Total Non-Current Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,385</u>	<u>1,385</u>
<u>Fund Equity</u>		
Fund Balance:		
Restricted	162,773	162,773
Unrestricted	124,066	124,066
Total Fund Equity	<u>286,839</u>	<u>286,839</u>
Total Liabilities & Fund Equity	<u>288,224</u>	<u>288,224</u>

See accompanying notes to the general purpose financial statements

Northeastern Utah Educational Service
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Exhibit 4

Total Fund Balances for Governmental Funds	\$ 286,839
Cash in Internal Service Fund	\$ 20,396
Receivables in Internal Service Fund	\$ 2,386
Funds Provided for Future Periods	<u>\$ 28,052</u>

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ -	
Net Value of Internal Service Fund Fixed Assets	\$ 21,670	
General Media Equipment, Net of \$3,294 Accumulated Depreciation	\$ 48,965	
General Other, Net of \$136,489 Accumulated Depreciation	<u>\$ 30,310</u>	<u>100,945</u>

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities both current and long-term - are reported in the statement of net assets. Balances at year-end are:

A/P Internal Service Fund	(1,638)
Advances from School District	(16,924)
Compensated Absence	(28,052)
Retained Earnings for in the Internal Service Fund	<u>(25,890)</u>

Total Net Assets of Governmental Activities	<u>\$ 366,114</u>
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Northeastern Utah Education Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

Exhibit 5

Governmental Fund Types

	<u>General</u>	<u>Totals</u>
<u>Revenues</u>		
State of Utah	366,949	366,949
Local School Districts	86,539	86,539
Other Local Revenue	149,671	149,671
Interest Earned	7,320	7,320
Total Revenues	<u>610,479</u>	<u>610,479</u>
<u>Expenditures</u>		
Salaries	301,822	301,822
Payroll Taxes	23,018	23,018
Retirement	43,624	43,624
Insurance	52,836	52,836
Telephone	5,023	5,023
Postage	605	605
Travel	10,963	10,963
Indirect Costs	-	-
Purchase Services	14,408	14,408
Miscellaneous	706	706
Board Expense	7,595	7,595
Office Expense	5,970	5,970
Building Maintenance	65,811	65,811
Equipment Remodeling	-	-
Office Equipment	-	-
Utilities	5,191	5,191
Vehicle	10,268	10,268
Materials & Supplies	46,409	46,409
Inservice Activities	41,159	41,159
Administrative Support	20	20
Total Expenditures	<u>635,428</u>	<u>635,428</u>
Excess of Revenues over (under)		
Expenditures	<u>(24,949)</u>	<u>(24,949)</u>
Fund Balance-Beginning of Year	<u>311,788</u>	<u>311,788</u>
Fund Balance-End of Year	<u>286,839</u>	<u>286,839</u>

See accompanying notes to the general purpose financial statements

Northeastern Utah Educational Service
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2005

Exhibit 6

Net Change in Fund Balances-Total Governmental Funds \$ (24,949)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation on new assets that are used in the general fund.

Capital outlay	<u>42,870</u>	
Depreciation expense	<u>(10,007)</u>	<u>32,863</u>

In the statement of activities, certain operating expenses - compensated absences (vacations), special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

Compensated Absense	-
Early Retirement Payable	<u>-</u>

Change in Net Assets of Governmental Activities 7,914

Northeastern Utah Educational Services
Statement of Net Assets
Proprietary Funds
June 30, 2005

Exhibit 7

<u>Assets</u>		<u>Totals</u>
<u>Current Assets</u>		
Cash	20,396	20,396
Receivables	2,386	2,386
Inventory	-	-
Due From Other Funds	-	-
Total Current Assets	<u>22,782</u>	<u>22,782</u>
<u>Non-Current Assets</u>		
Fixed Assets	143,916	143,916
Accum Depr	(122,246)	(122,246)
LT Debt Funds to be Provided in Future Periods	-	-
Total Non-Current Assets	<u>21,670</u>	<u>21,670</u>
Total Assets	<u>44,452</u>	<u>44,452</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	1,638	1,638
Due to Other Funds	-	-
Total Current Liabilities	<u>1,638</u>	<u>1,638</u>
<u>Non-Current Liabilities</u>		
Advances from School District	16,924	16,924
Compensated Absences	-	-
Total Non-Current Liabilities	<u>16,924</u>	<u>16,924</u>
Total Liabilities	<u>18,562</u>	<u>18,562</u>
<u>Fund Equity</u>		
Contributed Capital	4,220	4,220
Investment in General Fixed Assets	-	-
Retained Earnings	<u>21,670</u>	<u>21,670</u>
Total Fund Equity	<u>25,890</u>	<u>25,890</u>
Total Liabilities & Fund Equity	<u>44,452</u>	<u>44,452</u>

See accompanying notes to the general purpose financial statements

Northeastern Utah Educational Services
Statement of Revenues, Expenses & Change in Retained Earnings
Proprietary Funds
Year Ended June 30, 2004

Exhibit 8

	<u>Internal Service</u>
<u>Operating Revenue</u>	
Sales of Supplies & Service	137,877
Cost of Sales	<u>(11,335)</u>
Gross Profit	<u>126,542</u>
<u>Expenditures</u>	
Salaries & Wages	69,907
Payroll Taxes	5,348
Retirement	8,074
Insurance	22,215
Telephone	884
Postage/Freight	959
Travel	2,610
Contract Services	50
Office Expense	429
Building & Equipment	2,636
Materials & Supplies	3,486
Utilities	1,349
Depreciation	9,711
Auto	<u>1,868</u>
Total Operating Expenses	<u>129,527</u>
Total Operating Income (Loss)	<u>(2,985)</u>
<u>Non-Operating Revenues</u>	
Service Charges	-
Total Non-Operating Revenues	<u>-</u>
<u>Non-Operating Expenses</u>	
Net Income (Loss) for Year	<u>(2,985)</u>
Retained Earnings-Beginning of Year	<u>24,655</u>
Retained Earnings-End of Year	<u>21,670</u>

See accompanying notes to the general purpose financial statements

Northeastern Utah Educational Services
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004 and 2005

Exhibit 9

	<u>Internal Service Fund</u>	
	<u>2004</u>	<u>2005</u>
<u>Cash Flows from Operating Activities</u>		
Net Income (Loss)	<u>(3,066)</u>	<u>(2,985)</u>
<u>Adjustments to Reconcile Net Income (Loss) to Net Cash</u>		
Provided (Used) by Operations		
Depreciation	9,143	9,711
(Increase) Decrease in Receivables	(903)	(2,134)
(Increase) Decrease in Inventory	-	-
Increase (Decrease) in Accounts Payable	<u>(181)</u>	<u>24</u>
Total Adjustments	<u>8,059</u>	<u>7,601</u>
Net Cash Provided (Used) by Operating Activities	<u>4,993</u>	<u>4,616</u>
<u>Cash Flows from Non-Capital Financing Activities</u>		
Increase (Decrease) in Interfund Borrowing	-	-
Non-Operating Revenue	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Purchase of Fixed Assets	<u>(8,846)</u>	<u>-</u>
Net Cash Provided (Used) by Capital and Financing Activities	<u>(8,846)</u>	<u>-</u>
Net Increase in Cash	<u>(3,853)</u>	<u>4,616</u>
Cash-Beginning of Year	<u>19,634</u>	<u>15,781</u>
Cash-End of Year	<u>15,781</u>	<u>20,397</u>

See accompanying notes to the general purpose financial statements

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

Note 1-Summary of Significant Accounting Policies

The financial statements of the Northeastern Utah Educational Services have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Center are described below.

(a) The Center Entity

The Board of Education, comprised of five elected individuals, is the governing authority for the School Center. The Board establishes Center policies, approves the budget, elects a superintendent with responsibilities for administering all educational activities of the School Center, and elects a Clerk-Treasurer with responsibilities for fiscal matters. The Board is authorized to issue bonds, incur short-term debt, to levy ad valorem taxes, and is not dependent on any other unit of local government. All funds, including all financial activities over which the Board has governance, are included in the report. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the Centers reporting Entity.

(b) Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Center receives values without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Center considers all revenues reported in the governmental funds to be available. The Center considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the Center receives cash. Expenditures generally are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

(c) Government-wide and fund financial statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government (the Center). These statements include the financial activities of the overall Center, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

(c) Government-wide and fund financial statements(cont)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Center's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line. Program revenues include:

- 1) Fees and charges paid by students and other recipients of goods or services offered by a given function.
- 2) Grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

The fund financial statements provide information about the Center's funds, including its fiduciary fund. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

(d) Description of Funds and Account Groups

The Center accounts for its financial operations in the following funds:

Governmental Fund Types

General Fund – The General Fund is the general operating fund of the Center and accounts for all revenues and expenditures of the Center not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Capital Project Fund – The Capital Project fund is used to account for all resources for the acquisition of capital facilities by the Center.

Nonmajor Funds – These funds account for programs supported by a separate tax levy, education programs exclusive of the traditional kindergarten through twelfth grade, and school lunch program which is partially supported by user charges administered by the Center.

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

(d) Description of Funds and Account Groups (cont)

Fiduciary Fund Type

Trust and Agency Funds – Trust and Agency funds are used to account for assets held by the Center in a trustee capacity or as an agent for individual student groups, other governments, and/or for other funds.

(e) Budget Operation

The Center operates within the budget requirements for school centers as specified by State law and as interpreted by the State Superintendent of Public Instruction. The financial reports reflect the following budgetary standards:

1. For the fiscal year beginning July 1, the Clerk-Treasurer prepares a tentative budget which is presented to the Board of Education by the Superintendent on or before the preceding June 1.
2. By resolution, the Board of Education legally adopts the final budget prior to June 30.
3. Once adopted, the budget can be amended by subsequent Board action. Reductions in, or reallocations of appropriations can be approved by the Board upon recommendation of the Superintendent.
4. Interim adjustments in estimated revenue and appropriations during fiscal year 2005 have been included in the final budget approved by the Board, as presented in the financial statements.
5. As determined by the State Superintendent of Public Instruction, the level for which expenditures may not legally exceed appropriations is the total budget of a given fund.
6. Budgets for the Maintenance and Operation (General) Fund, the Special Revenue Fund, the Debt Service Fund, the Capital Project Funds are prepared on a budgetary basis of accounting. Property tax revenue from an authorized Capital Outlay and Debt Service levy is allocated to the Debt Service Fund to match current expenditures of that fund.

(f) Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The Center defines capital assets as assets with an initial, individual cost of more than \$500 for furniture and equipment and \$10,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized.

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

(f) Capital Assets (cont)

Buildings and improvements and furniture and equipment of the Center are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Buildings improvements and portable classrooms	20
Maintenance equipment	15
Vocational education equipment	15
Buses	10
Musical instruments	10
Furniture	10
Office equipment	10
Athletic equipment	8
 Vehicles	 8
Audio visual equipment	6
Computer equipment	3

(g) Compensated Absences

Employees are allowed to accrue ten (10) days of sick leave each year to a maximum accrual of 120 days. Employees who qualify will be paid 50% of their accrued sick leave at their salary rate in effect at retirement. The accrued liability for the Center at June 30, 2005 is \$153,790.

(h) Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets.

(i) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the policy of the Center to use restricted net assets first.

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

(i) Fund Equity (cont)

Government Wide Financial Statements:

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt- Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets-Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of
- c. other governments; or (2) law through constitutional provisions or enabling legislation.
- d. Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(j) Comparative Data

Comparative data for the prior years has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the Center's financial position and operations.

Note 2 – Cash and Investments

Cash includes currency on hand and demand deposits with banks or other financial institutions. Demand deposits include accounts where the Center may deposit or withdraw funds at any time without prior notice or penalty. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

The Center follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 541, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of Center funds in a "qualified depository". The act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allows as appropriate temporary investments for the Center and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

Note 2 – Cash and Investments (cont)

At June 30, 2005 the carrying amount of the Center's deposits were \$306,752 of which \$241,525 was deposited in the Utah State Treasurer's Investment pool. The bank balance was \$111,381 of which \$100,000 was covered by Federal Depository Insurance. The remaining bank balance \$11,381 was uncollateralized and uninsured.

Deposits

Custodial credit risk- Custodial credit risk is the risk that, in the event of a bank failure, the Center's deposits may not be returned to it. The Center does not have a formal deposit policy for custodial credit risk. As of June 20, 2005, \$11,381 of the Center's bank balance of \$111,381 was uninsured and uncollateralized.

Interest rate risk- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Center manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less.

Credit risk- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Center's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk- Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Center's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The District's investment in the Utah public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments)- For an investment, this is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center does not have a formal policy for custodial credit risk. The Center's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Note 3 Interfund Borrowing

Individual fund interfund receivable and payable balances at June 30, 2005 are \$0.

Note 4 – General Fixed Asset

The following is a summary of changes in the general fixed asset account group:

	Balance July 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2005</u>
<u>Capital Assets Being Depreciated</u>				
Building	60,901			60,901
Media Equipment	63,583			63,583
Office Equipment	115,634	38,081		153,715
Other	151,188	20,707		171,895
Vehicles	<u>19,432</u>	<u>-</u>		<u>19,432</u>
Total	<u>410,738</u>	<u>58,788</u>	<u>-</u>	<u>469,526</u>
<u>Accumulated Depreciation for:</u>				
Building	(45,703)	(1,829)		(47,532)
Media Equipment	(47,400)	(7,882)		(55,282)
Office Equipment	(99,146)	(5,604)		(104,750)
Other	(136,490)	(5,096)		(141,586)
Vehicles	<u>(19,432)</u>	<u>-</u>		<u>(19,432)</u>
Total	<u>(348,171)</u>	<u>(20,411)</u>	<u>-</u>	<u>(368,582)</u>

For the year ended June 30, 2004, depreciation expense was charged to functions of the District as follows.

General Fund	9,711
Internal Service Funds	<u>10,700</u>
Total	<u>20,411</u>

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

Note 5 - Proprietary Fixed Assets

The following is a summary of Proprietary Fund Fixed Assets as of June 30, 2005.

	<u>Internal Service Fund</u>
Building	\$ 60,901
Vehicles	19,432
Equipment	63,583
Less: Accumulated De	<u>(122,246)</u>
Net Fixed Assets	<u>\$ 21,670</u>

NUES uses the straight-line method of depreciation for all depreciable assets over the reasonable useful life of the asset. Depreciation expense recorded in the Enterprise Funds for the fiscal year 2004 and 2005 are \$9,143 and \$9,711 respectively.

Note 6 - Advance from School Distr

The long-term advance from the various participating school districts is working capital to provide inventory.

A summary of this advance follows:

<u>District</u>	<u>Inventory Deposit</u>
Daggett	\$ 2,400
Morgan	6,200
North Summit	3,124
Wasatch	<u>5,200</u>
Total	<u>\$ 16,924</u>

Northeastern Utah Educational Services

Notes to Financial Statements

June 30, 2005

Note 7 - Retirement Plan

The NUES participates in the Utah State Retirement System through the Wasatch County School District. NUES employees are treated as Wasatch School District employees for all retirement system reporting and for all payroll taxes.

The NUES contributes through the Wasatch School District to the State and School Contributory Retirement System and School Noncontributory Retirement System, cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provided refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The State Retirement Office Act in Chapter 49 provided for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 100 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

In the State and School Noncontributory Retirement System the NUES is required to contribute 14.88% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the board.

The NUES contributions to the State and School Contributory Retirement System and for the Noncontributory Retirements System for June 30, 2005 and 2004 were \$51,698 and \$46,888 respectively. The contributions were equal to the required contributions for each year.

Northeastern Utah Educational Services
Notes to Financial Statements
June 30, 2005

Note 8 - Reserved Fund Balance

Northeastern Utah Educational Services receives funding to administer and operate various programs for the participating school districts. Revenues received for specific programs that are unexpended at June 30, 2005 are reported in the combined balance sheet (Exhibit 1) as reserved fund balance and include the following.

<u>Program</u>	<u>Unexpended Balance</u>
Cognos	-
Reading	56,163
Special Education	7,281
Technology	67,183
Surwebb	4,784
Regional Trainer	<u>27,362</u>
Total	<u>162,773</u>

REQUIRED SUPPLEMENTARY INFORMATION

Northeastern Utah Education Services
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget
& Actual - Governmental Funds
Year Ended June 30, 2005

Exhibit 10

	<u>Original & Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>Revenues</u>			
State Funding	265,400	366,949	101,549
Local School Districts	90,446	86,539	(3,907)
Other Local Revenue	75,850	149,671	73,821
UEN	137,016		(137,016)
Interest	6,000	7,320	1,320
Total Revenues	<u>574,712</u>	<u>610,479</u>	<u>35,767</u>
<u>Expenditures</u>			
Administrative Support	20	20	-
Auto & Equipment	31,370	10,268	21,102
Auto & Equipment Mainenance	11,210	-	11,210
Board Expenses	8,500	7,595	905
Building Maintenance	18,100	65,811	(47,711)
Indirect Costs	500	-	500
Inservice Activities	39,025	41,159	(2,134)
Insurance	46,809	52,836	(6,027)
Materials & Supplies	47,260	46,409	851
Miscellaneous	-	706	(706)
Office Expenses	3,050	5,970	(2,920)
Payroll Taxes	22,970	23,018	(48)
Postage	625	605	20
Property Insurance	5,005	-	5,005
Purchase Services	7,000	14,408	(7,408)
Retirement	29,810	43,624	(13,814)
Salaries	302,875	301,822	1,053
Telephone	6,010	5,023	987
Travel	13,071	10,963	2,108
Utilities	5,358	5,191	167
Total Expenditures	<u>598,568</u>	<u>635,428</u>	<u>(36,860)</u>
Excess of Revenues Over (Under) Expenditures	<u>(23,856)</u>	<u>(24,949)</u>	
Fund Balance- Beginning of Year	<u>311,788</u>	<u>311,788</u>	
Fund Balance- End of Year	<u>287,926</u>	<u>286,839</u>	



Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the general-purpose financial statements of Northeastern Utah Educational Services as of and for the year ended June 30, 2005 and have issued our report thereon dated September 7, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.


Compliance

As part of obtaining reasonable assurance about whether Northeastern Utah Educational Services general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those procedures was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Northeastern Utah Educational Services control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Northeastern Utah Educational Services in a separate letter dated September 7, 2005.

This report is intended solely for the information of the audit committee, management and others within the organization, and the Board. However, this report is a matter of public record, and its distribution is not limited.


Steve Johnstun & Associates
Certified Public Accountant

September 7, 2005



Independent Auditor's Report on
State Legal Compliance

We have audited the general-purpose financial statements of the Northeastern Utah Educational Services (Center) for the year ended June 30, 2005 and have issued our report thereon dated September 7, 2005. The Center did not receive any major state grants during the year ended June 30, 2005.

Our audit included testwork on the Center's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Purchasing Requirements
Other General Issues

Cash Management
Budgetary Compliance

The management of the Center is responsible for the Center's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Centers compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Northeastern Utah Educational Services complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

Steve Johnstun & Associates
Steve Johnstun & Associates
Certified Public Accountants

September 7, 2005

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September 27, 2005

Board of Directors
Northeastern Utah Educational Services
755 South Main Street
Heber City, Utah 84302

Dear Board Members:

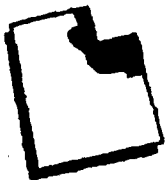
We have completed our audit of the Northeastern Utah Educational Services for the year ended June 30, 2005 and issued our report thereon dated September 7, 2005.

During our audit, we found that the General Fund overspent the budget by \$36,860. We recommend a preliminary budget done at the beginning of the year, then an amended budget done sometime during the year to make sure the budget numbers are what they should be.

We express appreciation for the courteous assistance provided us by the Center employees and compliment the staff members for the excellent manner in which they perform their duties.

We are pleased to offer our assistance in implementing these recommendations or any other assistance we may provide to improve the Center's financial operation and management.

Sincerely
Steve Johnston & Associates
Steve Johnston & Associates
Certified Public Accountant



**NORTHEASTERN UTAH EDUCATIONAL SERVICES
(NUES)**

Providing Service to Education

EXECUTIVE DIRECTOR
GEROLD R. ERICKSON

DIRECTOR'S SECRETARY
DALE PARKS

BOARD OF DIRECTORS

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PARK CITY

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RICH

TIM SMITH
SOUTH SUMMIT

WAYNE GURNEY
UTAH

TERRY E. SHEDAKER
WASATCH

October 5, 2005

Mr. Steve Johnston & Associates
3590 Harrison Blvd.
Ogden, Utah 84403

Dear Mr. Johnston:

Thank you for your recently completed audit for the Northeastern Utah Educational Services Center. We appreciate the thoroughness and promptness with which you and your staff completed the audit.

We have implemented steps to amend the budget during the year when needed to assure that the numbers at the close of the year are in alignment with the budget approved by the Board of Director's approved budget.

Thank you again for your help.

Sincerely,

Gerold R. Erickson, Executive Director
Northeastern Utah Educational Center